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SCOTTISH and YORK
1975
Annual Report

Jan



SCOTTISH & YORK HOLDINGS LIMITED Annual Report

Board of Directors

R. D. ABBOT
R. W. BROUGHTON
S. F. CHAPMAN
K. H. DOYLE
W. G. HOLBROOK
S. L. McCABE
A. D. McEWEN
K. R. THOMSON
J. A. TORY

over 

Officers

R. W. BROUGHTON — *Chairman of the Board and Chief Executive Officer*
W. G. HOLBROOK — *President and Chief Operating Officer*
R. D. ABBOT — *Vice-President and Secretary-Treasurer*
S. F. CHAPMAN — *Vice-President — Finance*
J. A. TORY — *Vice-President*
D. A. BOYD — *Vice-President*
N. W. McDERMOTT — *Asst. Vice-President*

Transfer Agent

MONTREAL TRUST COMPANY

Auditors

THORNE RIDDELL & CO.

Bankers

THE ROYAL BANK OF CANADA

Executive Office

155 UNIVERSITY AVENUE, TORONTO, CANADA

SCOTTISH & YORK HOLDINGS LIMITED

Canada

**SCOTTISH & YORK INSURANCE CO. LIMITED
VICTORIA INSURANCE COMPANY OF CANADA**

Officers

THE RT. HON. LORD THOMSON OF FLEET
R. D. ABBOT
D. A. BOYD
R. W. BROUGHTON
S. F. CHAPMAN
W. G. HOLBROOK
N. W. McDERMOTT

**CENTRAL CANADA INSURANCE SERVICE LIMITED
ONTARIO INSURANCE SERVICE**

United States

**SCOTTISH & YORK, INC.
SCOTTISH & YORK INTERNATIONAL INSURANCE, INC.
LINCOLN INSURANCE COMPANY
GUARANTEE INSURANCE COMPANY
ASSOCIATED TREATY MANAGERS, INC.
INTERNATIONAL MANAGEMENT CORPORATION
LINCOLN MANAGEMENT CORP.
INTERNATIONAL PREMIUM COMPANY**

Nassau, Bahamas

VICTORIA INSURANCE COMPANY LIMITED

United Kingdom

OVERSEAS INSURANCE SERVICES

SCOTTISH & YORK HOLDINGS GROUP

To The Shareholders

The year 1975 was a milestone in the history of your Company marked by the acquisition of an 80% interest in a group of companies carrying on a general insurance business in the United States. With this move we believe we have paved the way for the future growth of your Company for many years to come.

A substantial portion of the funds required for this acquisition was raised through a very successful rights offering which expired January 15, 1976. We are pleased with the support that this offering received.

The North American insurance industry experienced another poor year in 1975. Despite this adverse climate the Canadian operations of your Company showed a marked improvement with the underwriting losses reduced to \$167,076 from \$488,214 in 1974. Although the underwriting results of our United States operations showed a loss of \$474,714 for the six months from date of acquisition, an improving trend has been established and we expect a significant contribution to earnings from these operations in 1976 and future years.

Consolidated net income for 1975 was \$910,286 or 15.2¢ per common share compared with net income of \$827,185 or 13.8¢ per common share in 1974.

The 1976 outlook for the insurance industry is very encouraging with most companies having taken corrective measures and striving for underwriting profits.

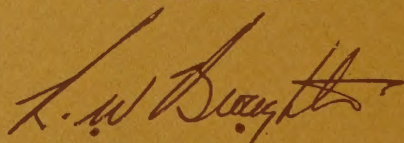
These measures include rate increases. However, it must be remembered that our Canadian operations are subject to the Anti-Inflation Act and the interpretation of this Act as it applies to insurance companies is not yet clear.

In 1975 there were significant changes in the management of your Company. After 15 years of faithful service Mr. K. H. Doyle retired as President. However, he continues as President of our Bahamian subsidiary, Victoria Insurance Company Limited, and also as a Director of your Company. In addition, Mr. K. R. Thomson retired as Chairman of the Board but will continue as a Director. On behalf of the Board of Directors I would like to thank Mr. Doyle and Mr. Thomson for their significant contributions to the success of your Company and express our pleasure that we will continue to have the benefit of their experience and advice.

I look forward to seeing many of you at the Annual Meeting to be held on May 26th, 1976 at the Royal York Hotel in Toronto.

The Directors wish to express their sincere thanks to the officers and employees for their efforts during the past year and also to the shareholders for their continuing confidence and support.

*Submitted on behalf of the
Board of Directors*

A handwritten signature in dark ink, appearing to read 'R. W. Broughton', with a stylized flourish at the end.

R. W. BROUGHTON
Chairman of the Board and
Chief Executive Officer

SCOTTISH & YORK HOLDINGS LIMITED

and subsidiary companies

Auditors' Report

To the Shareholders of
Scottish & York Holdings Limited

We have examined the consolidated balance sheet of Scottish & York Holdings Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Scottish & York Holdings Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For those subsidiaries of which we are not auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 27, 1976

THORNE RIDDELL & CO.,
Chartered Accountants

SCOTTISH & YORK HOLDINGS LIMITED (Incorporated under the laws of Scotland)
CONSOLIDATED BALANCE SHEET - DECEMBER 31, 1975

ASSETS

	<u>1975</u>	<u>1974</u>
Cash	\$ 700,172	\$ 202,809
Marketable securities		
Term deposits	11,616,057	9,742,030
Bonds, at cost or amortized cost and accrued interest (market value 1975, \$18,174,884; 1974, \$7,520,236)	19,496,651	8,721,853
Stocks, at cost (market value 1975, \$2,846,899; 1974, \$2,865,366)	4,277,372	4,445,060
Accounts receivable	4,569,796	2,662,766
Income and premium taxes recoverable		15,740
Furniture, fixtures and automobiles, at cost less accumulated depreciation 1975, \$77,750; 1974, \$60,897	93,693	48,617
Agencies, agreements and contracts, at cost	110,116	110,116
Premium paid on acquisition of shares of subsidiary companies net of amortization of \$13,764 (1974, Nil)	679,638	65,037
	<u>\$41,543,495</u>	<u>\$26,014,028</u>

Approved by the Board

W. G. HOLBROOK, Director

R. D. ABBOT, Director

LIABILITIES

	<u>1975</u>	<u>1974</u>
Notes payable (note 2)	\$ 4,275,803	
Accounts payable and accrued liabilities	2,014,000	\$ 2,645,575
Customers' deposits	26,250	26,250
Provision for outstanding claims	15,631,585	11,307,372
Income and premium taxes payable	157,133	
Deferred revenue	10,256,951	4,837,483
Interest of minority common shareholders of subsidiary companies	1,092,567	40,687
	<u>33,454,289</u>	<u>18,857,367</u>

SHAREHOLDERS' EQUITY

Capital stock (note 5)		
Authorized		
10,000 First preference shares, par value \$50 each, issuable in series		
8,000,000 Common shares without par value		
Issued		
6,013,912 Common shares (6,000,000 shares in 1974)	523,259	501,000
Retained earnings	7,565,947	6,655,661
	<u>8,089,206</u>	<u>7,156,661</u>
	<u>\$41,543,495</u>	<u>\$26,014,028</u>
Contingent liabilities and contractual commitments (note 3)		

SCOTTISH & YORK HOLDINGS LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1975

	1975	1974
Gross premiums written and other income	\$33,747,544	\$21,759,939
Underwriting loss	\$ 641,790	\$ 488,214
Investment income	2,067,400	1,745,175
	<u>1,425,610</u>	<u>1,256,961</u>
Interest on notes payable	180,837	
Income before income taxes and minority interest ...	1,244,773	1,256,961
Income taxes	377,293	429,534
	<u>867,480</u>	<u>827,427</u>
Interest of minority common shareholders of subsidiary companies, net	(42,806)	242
Net Income	<u>\$ 910,286</u>	<u>\$ 827,185</u>
Net Income Capital Per Share		
Basic	15.2¢	13.8¢
Fully diluted (note 5)	13.0¢	

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1975

	1975	1974
Balance at beginning of year	\$ 6,655,661	\$ 6,638,476
Net income	910,286	827,185
	<u>7,565,947</u>	<u>7,465,661</u>
Dividends on common shares		810,000
Balance at end of year	<u>\$ 7,565,947</u>	<u>\$ 6,655,661</u>

SCOTTISH & YORK HOLDINGS LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1975

	<u>1975</u>	<u>1974</u>
Resources provided		
Operations (as outlined below)	\$ 4,843,909	\$ 1,534,789
Decrease in term deposits		1,668,682
Sale of stocks, net	277,926	
Net change in other assets and liabilities	172,873	
Decrease in cash		408,561
	<u>\$ 5,294,708</u>	<u>\$ 3,612,032</u>
Resources applied		
Purchase of marketable securities, net		
Bonds	\$ 3,007,995	\$ 1,399,100
Stocks		409,579
Bank loan		500,000
Increase in term deposits	1,874,027	
Purchase of furniture, fixtures and automobiles, net	14,809	
Acquisition of U.S. companies		
Premium paid on acquisition of shares of subsidiary companies \$ 628,365		
Other, net 3,925,514	\$4,553,879	
Less, resources provided from notes payable	4,181,803	
Sale of common shares (note 5)	22,259	4,204,062
		349,817
Dividends on common shares		810,000
Net change in other assets and liabilities		493,353
Increase in cash	48,060	
	<u>\$ 5,294,708</u>	<u>\$ 3,612,032</u>
Operations		
Net income	\$ 910,286	\$ 827,185
Items not involving cash		
Depreciation	16,675	12,370
Amortization of premium paid on acquisition of shares of subsidiary companies	13,764	
Interest of minority common shareholders of subsidiary companies	(42,806)	242
Increase (decrease) in deferred revenue	5,419,468	(165,335)
Increase in provision for outstanding claims	4,324,213	511,069
Increase (decrease) in accounts payable and accrued liabilities	(631,575)	881,520
Increase in accounts receivable	(1,907,030)	(532,262)
	8,102,995	1,534,789
Deduct, net resources provided from acquisition of U.S. companies	3,259,086	
Resources provided from operations	<u>\$ 4,843,909</u>	<u>\$ 1,534,789</u>

SCOTTISH & YORK HOLDINGS LIMITED
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1975

1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles which, as to the subsidiary insurance companies, differ in some respects from statutory accounting practices followed in the preparation of financial statements submitted to regulatory authorities.

(a) Principles of Consolidation

The consolidated financial statements include all the subsidiary companies, which are:

Canadian Group

Scottish & York Insurance Co. Limited
Central Canada Insurance Service Limited
Victoria Insurance Company of Canada

U.S. Group

Scottish & York, Inc.
Lincoln Insurance Company
Lincoln Management Corp.
Associated Treaty Managers, Inc.
Guarantee Insurance Company
Guarantee Management Corporation
Scottish & York International Insurance, Inc.
International Premium Company.

Bahamas

Victoria Insurance Company Limited

Effective July 1, 1975 the company through its wholly owned subsidiary Scottish & York, Inc. acquired an 80% interest in Scottish & York International Insurance, Inc. a newly incorporated company and its wholly owned subsidiaries, namely Lincoln Insurance Company, Lincoln Management Corp., Associated Treaty Managers, Inc., Guarantee Insurance Company, Guarantee Management Corporation, and International Premium Company. The transaction has been accounted for on the purchase method with the results of operations included in these financial statements from date of acquisition. The acquisition equation is as follows:

Total assets acquired excluding premium paid on acquisition	
of shares of subsidiary companies	\$9,059,794
Less total liabilities	4,213,227
Net assets acquired	4,846,567
Premium paid on acquisition of shares of subsidiary companies	628,365
	<u>\$5,474,932</u>
Consideration at fair value	
Cash	\$1,293,129
Notes payable	4,181,803
	<u>\$5,474,932</u>

Under an agreement dated June 27, 1975, among Scottish & York Holdings Limited, International Insurance Holdings Corporation, Scottish & York, Inc. and Scottish & York International Insurance, Inc. relating to the acquisition of the 80% interest in the U.S. Group, provision is made whereby additional consideration may be payable depending on the level of future profits of the U.S. Group. This purchase agreement also provides for adjustments in respect of the tax savings resulting from the carry-forward of losses incurred by the U.S. Group prior to July 1, 1975, as well as for uncollected accounts receivable, undisclosed liabilities and unreflected assets at that date.

(b) Translation into Canadian Dollars

Assets, liabilities, income and expense balances in United States and Bahamian dollars are translated at par.

(c) Marketable Securities

- (i) Term deposits are recorded at cost.
- (ii) Bonds are recorded at cost or amortized cost plus accrued interest.
- (iii) Stocks are recorded at cost.
Interest income is recorded on an accrual basis.
Dividend income is recorded on a cash received basis.
- (iv) Gains and losses on disposal of investments are determined on a first in, first out basis.

(d) Fixed Assets and Accumulated Depreciation

All fixed assets are recorded at cost, less accumulated depreciation.

Furniture, fixtures and equipment are depreciated over their estimated useful life at varying rates ranging from 12½% straight line basis to 20% reducing balance basis.

Automobiles are depreciated over their useful life at the rate of 30% reducing balance basis.

(e) Premium Paid on Acquisition of Shares of Subsidiary Companies

The company amortizes such premium over forty years.

(f) Deferred Revenue

- (i) Deferred commission income and policy acquisition costs.
Policy acquisition costs, net of reinsurance allowances, are deferred and amortized over the terms of the related policies. For the years 1975 and 1974 deferred commission income exceeded deferred acquisition costs. Accordingly, the net credit balance is included in deferred revenue.
- (ii) Deferred premium income.
Premium income is deferred until it is earned. The basis for taking premiums into income is in accord with policies prescribed by the regulating organizations under which the companies operate.

(g) Provision for outstanding claims

The liabilities for losses and claims and related adjustment expenses are determined using case basis evaluations plus a provision for unreported claims and represent estimates of the ultimate net cost of all losses and claims incurred through December 31, 1975. Since the provisions are necessarily based on

estimates which in some cases are supplied by reinsured companies, the ultimate liability may be more or less than the estimated amounts. These liabilities have been stated net of reinsurance recoverable from other companies.

(h) Recognition of Income

A subsidiary company, Associated Treaty Managers, Inc., manages a number of reinsurance arrangements for which it receives management fees based upon earned premiums. The fee income is recognized simultaneously with the recognition of earned premiums by the reinsurers.

(i) Income Taxes

Tax losses of prior years of a Canadian subsidiary amounting to approximately \$354,000 remain available in determining income taxes in future years to 1978. Tax losses amounting to approximately \$750,000 relating to the operation of the U.S. companies since acquisition also remain available in determining income taxes in future years to 1980. The U.S. losses include approximately \$390,000 in expenses which are deferred for accounting purposes but are deductible for tax filing purposes. The tax effects of these losses have not been recorded in the accounts.

2. NOTES PAYABLE

	<u>Total</u>	<u>Due within one year</u>	<u>Due within five years</u>
Note payable to The Royal Bank of Canada bearing interest at the rate of U.S. prime plus 1% payable \$3,000,000 on January 31, 1976, \$250,000 on June 30, 1976 and June 30, 1977 and the balance on June 30, 1978	\$4,000,000	\$3,250,000	\$ 750,000
Note payable to the National Bank of Commerce bearing interest at the rate of U.S. prime plus 1½ % payable on demand	94,000	94,000	
Note payable to International Insurance Holdings Corporation bearing interest at the rate of 1% above the First National City Bank U.S. base rate, payable June 30, 1977	181,803		181,803
	<u>\$4,275,803</u>	<u>\$3,344,000</u>	<u>\$ 931,803</u>

3. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

- (a) A wholly owned subsidiary company Victoria Insurance Company Limited, has been assessed Federal income taxes relating to the years 1968, 1969 and 1970 amounting to approximately \$1,000,000 including interest to November 30, 1973. A Notice of Objection was filed with respect to these assessments in 1974 and Revenue Canada, Taxation reconfirmed the assessments on February 6, 1975.

The company has filed a Notice of Appeal to the Tax Review Board. No date for a hearing of the Appeal has been set.

The company has deposited its share investment in subsidiary companies Scottish & York Insurance Co. Limited and Victoria Insurance Company of Canada with The Royal Bank of Canada to be held as security until the outcome of this assessment is known.

- (b) The company leases office space for a term expiring in 1984 with an option to extend this to 1994. The annual rental is approximately \$57,000.

4. ANTI-INFLATION LEGISLATION

The Company and its Canadian subsidiaries are subject to the provisions of the Federal Government's Anti-Inflation Act which became effective on October 14, 1975. This Act imposes restrictions on prices, profit margins, compensation to employees and payment of dividends by the parent company.

The effects on the company of this Act on prices and profit margins are not yet clear since there are many uncertainties as to the interpretation and application of the legislation to insurance companies.

In the event that dividends are resumed, the maximum dividend payable to the company's shareholders during the first compliance period ending October 31, 1976 will be 13.5¢ per share.

5. RIGHTS ISSUE

Under a rights offering dated December 10, 1975 the shareholders of record at the close of business on December 9, 1975 were entitled to one right for each common share held. Three such rights, together with \$1.60 entitled the shareholder to purchase one additional common share of the company.

This offering, which expired on January 15, 1976, was fully subscribed and the company issued 2,000,000 treasury shares for a cash consideration of \$3,200,000. These proceeds have been utilized to reduce bank indebtedness incurred to acquire the U.S. Group.

As at December 31, 1975, Montreal Trust Company was holding in trust \$22,259 as consideration for the subscription of 13,912 shares.

6. OTHER STATUTORY INFORMATION

	<u>1975</u>	<u>1974</u>
Direct remuneration of directors and senior officers (as defined by The Business Corporations Act)	\$209,399	\$169,006
Depreciation	\$ 16,675	\$ 12,370

SCOTTISH & YORK HOLDINGS GROUP

Five Year Performance Record

YEAR	GROSS PREMIUMS WRITTEN	NET PREMIUMS WRITTEN	DEFERRED REVENUE
1975	31,676,100	24,373,390	10,256,951
1974	19,975,895	13,812,615	4,837,483
1973	23,223,028	16,151,894	5,002,818
1972	21,984,441	15,594,384	4,089,777
1971	21,585,228	14,782,791	4,194,749

NOTE : Per share amounts prior to 1972 adjusted for two for one subdivision of capital stock made in November 1972 and November 1971.

INCOME BEFORE TAXES	INCOME TAXES	NET INCOME	EARNINGS PER SHARE	DIVIDENDS PAID PER SHARE
1,287,579	377,293	910,286	15.2¢	—
1,256,719	429,534	827,185	13.8¢	13.5¢
1,926,717	536,558	1,390,159	23.2¢	18¢
2,302,851	605,774	1,697,077	28.3¢	16¢
2,972,270	717,639	2,254,631	37.5¢	13¢

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Full

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**SCOTTISH
&
YORK**

**INTERIM
REPORT**

JUNE 30, 1975

SCOTTISH & YORK HOLDINGS LIMITED

and its Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

	<u>Six months ended</u>	
	<u>June 30, 1975</u>	<u>June 30, 1974</u>
Gross premiums written and other revenue	\$13,261,166	\$12,142,262
Net income before taxes	1,041,897	828,206
Provision for taxes	190,000	347,708
Net income after taxes	844,947	480,498
Profit per share	.14¢	.08¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	<u>Six months ended</u>	
	<u>June 30, 1975</u>	<u>June 30, 1974</u>
Source of Funds		
Operations		
Net income for the six months	\$ 844,947	\$ 480,498
Add items not involving a current outlay of funds		
Depreciation	6,000	5,000
Interest of minority common shareholders of subsidiary companies	3,475	2,547
	<u>\$ 854,422</u>	<u>\$ 488,045</u>
Sale of marketable securities, net	—	1,450,891
Increase in accounts payable	—	3,692
Increase in provision for outstanding claims	97,815	117,597
Increase in deferred revenue	1,407,159	310,962
	<u>\$ 2,359,396</u>	<u>\$ 2,371,187</u>
Application of Funds		
Decrease in accounts payable	\$ 1,393,059	\$ —
Purchase of marketable securities, net	263,517	—
Increase in accounts receivable	266,278	923,693
Dividends on common shares	—	540,000
Decrease in bank loan	—	500,000
Net change in other assets and liabilities	436,542	407,494
	<u>\$ 2,359,396</u>	<u>\$ 2,371,187</u>

W. HOLBROOK
President

August 15th, 1975